Workshop on Best Practices in the Energy Sector: Restructuring, Privatisation: The Road Ahead,

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Poland's experience from Energy Sector Restructuring and Privatisation Process

Elżbieta Wróblewska

Ministry of Economy and Labour

Department of Energy Security

Basic data on Poland

- population: 38,6 mln, surface: 312 000 $km^{2,}$
- Capital – Warsaw, 16 regions
- borders with: Russia, Lithuania, Ukraine, Slovakia, Czech Republic and Germany.
- structure of primary energy consumption (2002):
  - hard coal 51%
  - lignite 13%
  - crude oil 20%
  - natural gas 11%
  - other 5%

Production of major energy products & Foreign investments

- **Production of major energy products (2002):**
- Hard coal – 102 mln tonnes; brown coal- 58.5 mln tonnes; natural gas –5.2 bln m3; electricity- 144,000 GWh; crude oil processing- 18 mln tonnes.
- **Foreign direct investments:** reached 6,420 million USD in 2003 (but 10,601 in 2000),
- mainly from the so-called 'triad' countries (i.e. EU countries, + USA + Japan),
- largest foreign investors in the energy sector include: Vattenfall, Electricite de France, RWE, Gazprom, SNET, MEAG, Gaz de France, PSEG, Alstom, Shell.

Milestones in the process of the Polish energy sector restructuring and privatisation

- Start just after political transformation in 1989
- Preparation of new assumptions for the sector including strategies for demonopolisation and privatisation, introduction of market economy principles where feasible, regulation of natural monopoly activities.
- Preparation of forecasts regarding possible demand for particular kinds of energy and subsectors' development trends (too optimistic).

Legislation and programmes

- **Legislative Acts:**
- Energy Law of 1997 with later amendments,
- Executive regulations
- Laws on restructuring of the hard coal sector

Policy acts:

- Assumptions for Poland's Energy Policy to the year 2010 of 1995 and Assumptions up to the year 2020 of 2000.
- Subsequent restructuring programmes for the hard coal sector
- New trends: "Development Strategy for Renewables" approved by Parliament in August 2001, draft document "Wind Energy Development Programme for 2002 - 2005" prepared in September 2001.

Key objectives of the energy strategy

- energy security,
- improvement of competitiveness and energy efficiency,
- natural environment protection,
- adjustment of coal production to real mainly domestic demand,
- increase of the share of energy from renewable sources in Poland's primary energy balance
  - 7.5% in 2010
  - 14% in 2020.

Major concerns & problems during implementation of the strategy so far

- **General economic: lower than expected economic growth rates after 1997, high unemployment, high interest loans in banks up to 2000.**
- **Specific for energy sector: decreasing demand for fuel and energy, insufficient effects of hard coal sector restructuring programmes, not solved problem of long-terms contracts for the purchase of electric energy, excessive amounts of natural gas contracted under "take or pay" agreement.**

Observed weaknesses of the power sector's structure and applied or planned remedies

Too small economic subjects to implement investments, utilize scale effect, compete in the EU internal energy markets causing lower values upon privatisation

Long-term contracts /LTC/ on purchase of electricity constituting a barrier for implementation of real third party access to power grids

Discrepencies in functioning of particular segments of the sector

<u>Remedies:</u>

- **Consolidation activities,**
- **Dissolving LTCs: recent approach- by a special legal Act**
- **Corrections to the structure of particularly transmission and distribution companies - planned separation of trade activities,**
- **Improvement in functioning of the Balancing Market and The Polish Power Exchange (GE)**
- **Improvement in the Regulator's activities.**

Lessons from privatisation attempts

Foreign investors are interested in:

- **good investment climate: transparent, clear legislation, well functioning administration, fiscal incentives**
- **tariffs ensuring coverage of costs including costs of purchase of shares;**
- **growth of demand for energy,**
- **stable privatisation policy.**

Perceived weak points of the Polish system:

- **Existance of LTC and introduction of high excise tax for electricity - caused lower interest in acquiring power plants' shares.**
- **Controvercial opinions on privatisation, difficulties with negotiating social packages within privatisation contracts .**
- **Expensive obligations to improve environmental protection systems and production efficiency - (still major investments needed).**

Policy and plans for further reforming the fuel and energy sector

Government strategy:

- **Targeted at full complience with the EU acquis communautaire**
- **Oriented towards making the sector well prepared to compete with energy companies in the European internal energy markets (eg. by consolidation processes) – third party access challenge,**
- **Oriented also at making the sector able to invest in modern technologies, further improve the level of environmental protection and fulfill necessary investment plans (e.g. in networks upgrading and interconnections)**

Consolidation process in the power sector

- Plans to merge lignite mines with power stations.
- 3 power stations (BOT group) – will stay as a strategic energy asset of the State Treasury to guarantee energy security and proper operations of the market which will undergo partial privatisation in the future.
- Plans to strenghen the second group of power plants -PKE holding. Envisaged privatisation is to be through flotation of shares on the Stock Exchange.
- Gradually privatise other power stations.
- Create infrastructure companies on the basis of existing distribution plants.

Consolidation process in the oil subsector

- Creation of the LOTOS Group around the Gdansk Refinery
- Actions and plans of ORLEN company: participation in privatisation of foreign oil companies (Unipetrol, MOL), acquisition of filling stations in other countries

Current actions in hard coal sector:

- Further consolidation of production activities: grouping of mines in three companies (two power coal companies and one company for coking coal) and beginning the mines' privatisation process;
- Creation of the coke production company on the basis of the coking coal mining group, the "Zdzieszowice" and "Przyjaźń" coke plants and the "Polski Koks" company;
- Grouping of mines to be liquidated into one Mines Restrururing Company created on the basis of the former State Agency for Restructuring of Hard Coal Sector.

Continuation of the gas sector restructuring programme

6 regional distribution companies started their operation in January 2003

It is envisaged to:

- **separate functionally independent companies dealing with activities related to trade in gas;**
- **define PGNiG S.A. as a system operator, to manage long-term contracts for gas supplied from abroad, gas storage and a high-pressure pipeline system; the operator would be linked capital-wise with separate companies owning low- and mid-pressure pipelines as well as with a prospecting/exploiting company.**
- **define operators of distribution systems.**

Plans for further privatisation of the energy sector in Poland

- After a period of organizational transformation – continuing the privatisation process but with appplication of various available technics: sale to strategic investors or quatation on the Stock Exchange.
- Five key objectives of the sector's privatisation still valid:
  - **protection of consumers by creating free energy markets;**
  - **ensuring the country's energy security;**
  - **creating a sufficient capital base for rational investing in view of Poland's integration with the European Union;**
  - **optimising social security instruments for the sector's employees;**
  - **optimising the privatisation revenues.**

Current state of privatisation (1): Power generation and CHPs sectors

- Privatisation of power stations was conducted individually, starting in 1999.
- 4 out of 17 system thermal power stations have been privatised -at least partly.
- Privatisation of CHPs -started in 1998; now – well advanced, 9 out of 19 companies have been privatised,
- The BOT Group and PKE holding will be privatised by flotation of shares on the Stock Exchange.

Current state of Privatisation (2): TSO and Distribution Companies

- Only 2 of former 33 distribution companies have been privatised,
- The privatisation strategy assumes initial consolidation of distribution plants into 5 infrastructure companies with a subsequent legal and ownership separation of trading subsidiaries from these infrastructure entities.
- Trading enterprises will be privatised before distribution companies.
- Privatisation plans for PSE /transmission system operator/ are not determined yet although planned provisionally for 2005/2006.

Gas Sector

- **According to the decision of the Ministers' Council of 13 August 2002:**
- **a minority shares of PGNiG will be available through a public offer for individual investors and long-term financial investors on the Warsaw Stock Exchange and/or foreign capital markets by offering shares of the company and/or increase of the capital- the earliest date: end of 2004.**
- **Access to a minority stake for an industrial investor is possible if the strategic interest of PGNiG SA so requires and with the assumption that the State Treasury will hold at least 51% of share in the company's share capital.**
- **Transfer of shares of the company requires a consent of the Ministers' Council.**
- **A decision on possible privatisation of distribution companies will be taken by the Ministers' Council in the future.**

Crude Oil Sector and Coal Sector

- Oil sector: Privatisation will be carried out in accordance with the recently amended restructuring and privatisation programme for this sector. PKN Orlen is privatised in 72%. Two privatisation attempts with regard to Gdansk Refinery - unsuccessful.
- Hard coal sector: Some pri-privatisation studies have been prepared. One privatisation attempt concerning Bogdanka mine was unsuccessful. Privatisation plans are delayed due to ongoing restructuring process.

General conclusions

- **Many difficulties on the way of restructuring and privatisatisation of the energy sector in Poland so far encountered.**
- **Proccess not yet completed.**
- **Harmonisation with EU acquis communautaire – still valid challenge and task due to introduction of new instruments and targets (eg. TENs programmes).**
- **Need for watching global processes, new phenomena in the world energy markets and industries (e.g. mergers and acquisitions among major European companies), development of new modern technologies – may be a new stage in the world's energy history ('hydrogen' economy at the horizon).**

Thank you very much for the attention!

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